



# State of Michigan

## State Debt Overview

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# Bureau of State and Authority Finance

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- The Bureau of State and Authority Finance (BSAF) operates within the Department of Treasury and provides access to the financial markets on behalf of the State
- Within BSAF, there are three main Divisions:
  - State Finance Division:
    - Manages the State's Common Cash Fund and cash flow activity
    - Structures and issues State bonds and notes and performs fiscal agent and trust services for various bond issues and public finance programs
    - Administers the State's School Bond Qualification and Loan Program
  - Authority Finance Division:
    - Provides financial and administrative support services for the Michigan Finance Authority (MFA), which provides access to the financial markets for municipalities, healthcare providers, schools (public, private and charter) and higher education. This is not State debt.
  - State Building Authority:
    - Provides the capital financing to acquire, construct, furnish, equip and/or renovate buildings for use of the state, including public universities and community colleges.
- As needed, the Bureau develops and evaluates a variety of specialized transactions involving not only the State but communities and school districts



# Constitutional Authority for GO Debt Issuance

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The Constitutional Authority for issuing General Obligation (GO) debt is limited to:

- Short-term borrowing (Article IX – Section 14):
  - Allows short-term borrowing for state operating and cash flow purposes
  - Borrowing is limited to 15% of the undedicated revenues received during the preceding fiscal year and must be repaid by the end of the current fiscal year
  - Cash flow notes last issued in fiscal year 2011. None issued in fiscal years 2012 through 2015.
- Long-term bonding (Article IX – Section 15):
  - Allows for the issuance of long-term debt for voter approved purposes
  - Includes Environmental and Recreational Bond issues passed in 1998 and 2002
- State Loans to School Districts (Article IX – Section 16):
  - Allows borrowing for the purpose of making loans to school districts who have bonds qualified under the School Bond Qualification and Loan Program



# State Debt Management

- Treasury administers the State's existing debt and manages issuance of new debt as authorized by the Legislature and the electorate
- Treasury also assists other State agencies with debt issuance, including the payment of debt service, compiling information for rating agencies, and reporting information needed to comply with Federal tax laws pertaining to the issuance of tax-exempt debt
- The State currently has the following general obligation debt, rated AA- by Standard & Poor's, AA by Fitch and Aa2 by Moody's:

\$ Amounts (In Thousands)		Total Authorization	Remaining Authorization	Outstanding Balance
	Environmental Protection Bonds	\$660,000	\$8,505	\$236,669
	Recreation Bonds	140,000	0	2,282
	School Loan Bonds (1)	(2)	(2)	1,053,887
	Clean Michigan Initiative Bonds	675,000	80,447	431,132
	Great Lakes Water Quality Bonds	1,000,000	687,452	203,291
	Total General Obligation Debt			\$1,927,262

(1) Debt service paid from School Aid Fund

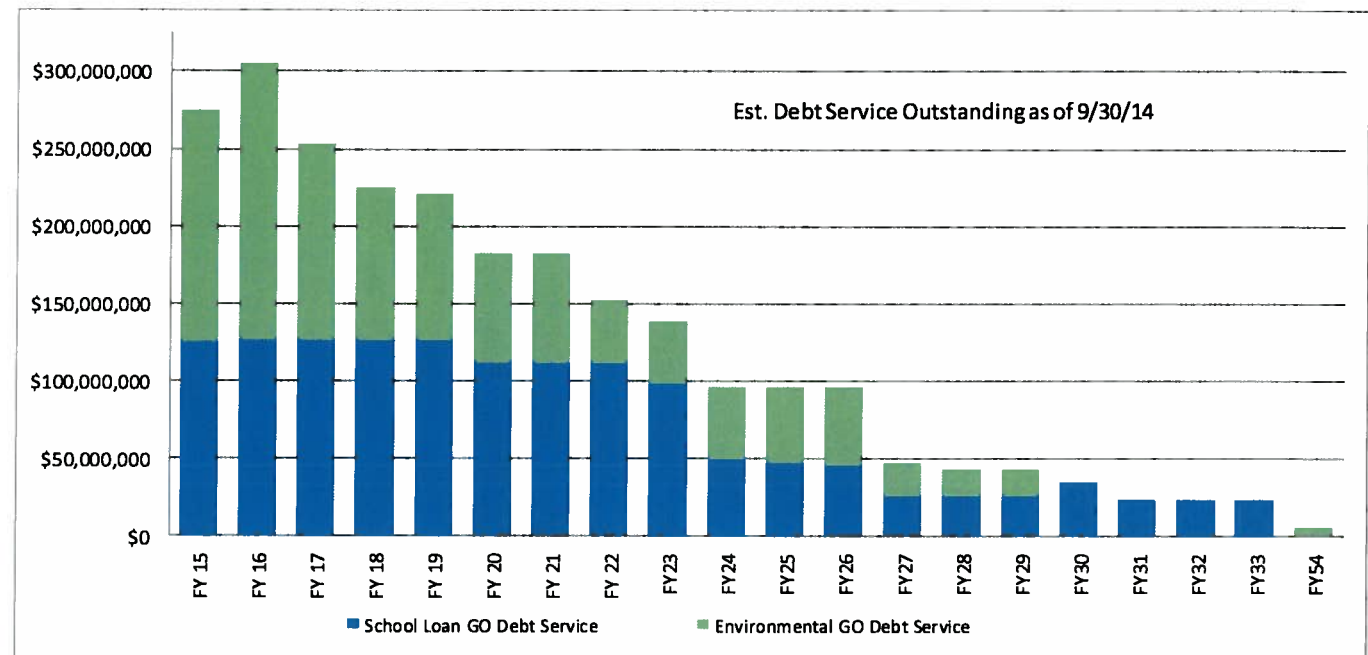
(2) No limit established by law

Note: Bonds and notes issued to refund existing outstanding debt are not counted against Remaining Authorization



# Current GO Debt Service by Fiscal Year & Program

Note: Fiscal year 2016 debt service includes a short-term bullet principal payment of approximately \$30 million that will be refinanced at maturity (December 2015)



# State GO Ratings History

Moody's		
Date	Rating	Outlook
11-27-1970	Aa	
10-02-1980	A	
05-07-1982	Baa1	
11-16-1984	A	
04-24-1986	A1	
07-18-1995	Aa	
03-07-1997	Aa2	
03-19-1998	Aa1	
10-05-2000	Aaa	
11-14-2003	Aa1	Stable
01-20-2005	Aa2	Stable
01-26-2007	Aa2	Negative
04-30-2007	Aa3	Stable
10-21-2008	Aa3	Stable
03-25-2009	Aa3	Negative
04-05-2010	Aa3	Negative
04-19-2010 <sup>1</sup>	Aa2	Stable
10-05-2010	Aa2	Stable
03-28-2013	Aa2	Positive

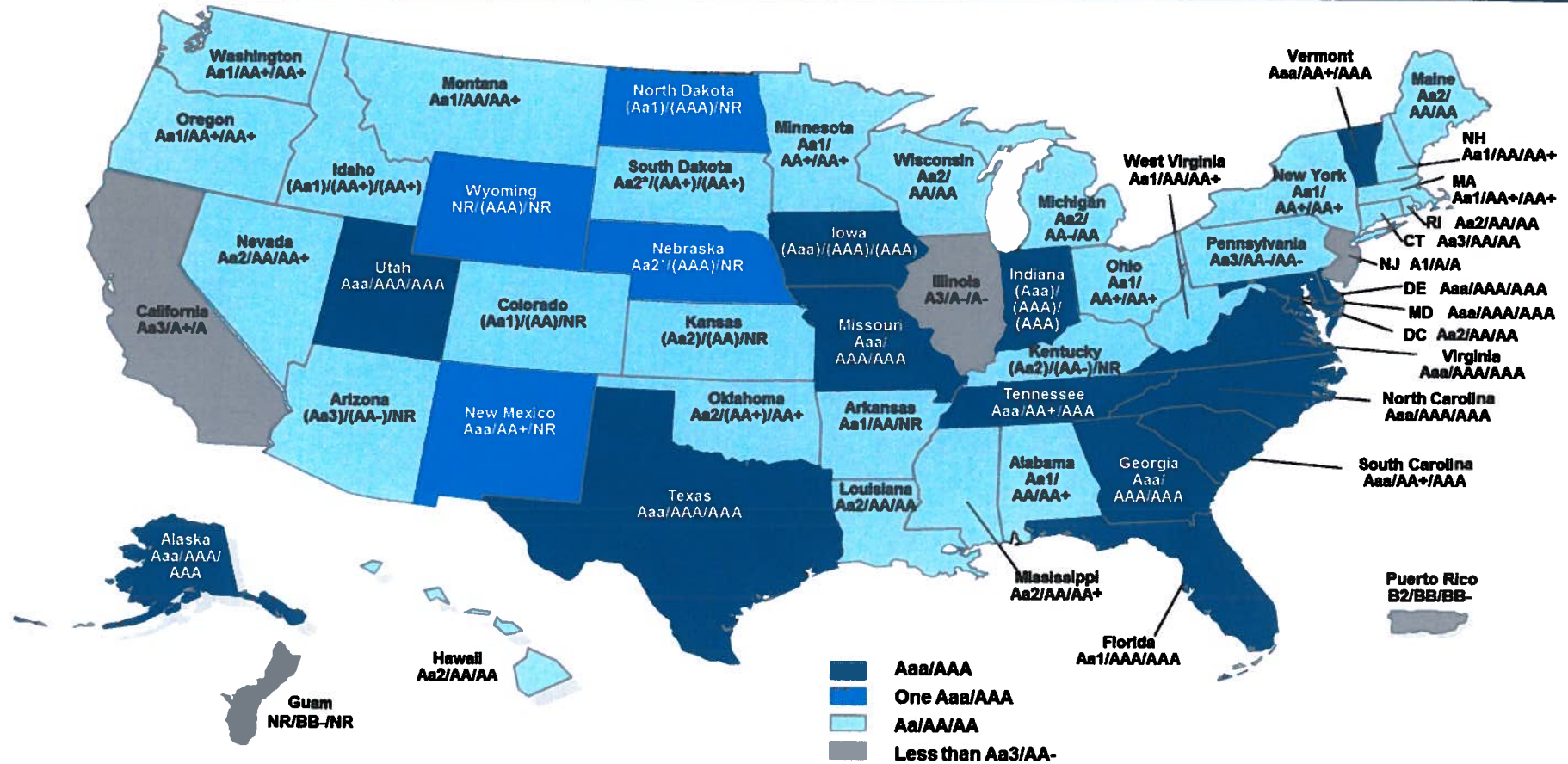
Standard & Poor's		
Date	Rating	Outlook
11-30-1959	AAA	
09-22-1976	AA	
06-09-1980	A+	
04-27-1986	AA-	
08-23-1989	AA	
01-20-1998	AA+	
09-27-2000	AAA	
12-30-2003	AA+	
03-30-2005	AA	Stable
08-09-2006	AA	Negative
05-22-2007	AA-	Stable
10-15-2008	AA-	Stable
03-23-2009	AA-	Stable
06-09-2009	AA-	Stable
04-06-2010	AA-	Stable
10-05-2010	AA-	Stable
04-02-2013 <sup>1</sup>	AA-	Positive
06-17-2014	AA-	Stable

Fitch		
Date	Rating	Outlook
10-20-1989	AA	
04-16-1998	AA+	
12-14-2004	AA	
04-13-2006	AA	Negative
01-26-2007	AA-	Stable
04-26-2007	AA-	Negative
10-17-2008	AA-	Negative
03-20-2009	AA-	Negative
07-10-2009	A+	Stable
04-05-2010 <sup>1</sup>	AA-	Stable
07-27-2011	AA-	Positive
04-02-2013	AA	Stable

<sup>1</sup>Scale Recalibration



# State General Obligation Ratings



Order of Ratings: Moody's/S&P/Fitch as of January 13, 2015  
 \*Lease revenue and/or Certificate of Participation ("COP") rating  
 NR: General Obligation Debt is Not Rated  
 ( ) Indicates issuer credit rating which is equivalent to a General Obligation rating



# 2013 Net Tax-Supported Debt Per Capita

		Moody's			Moody's				Moody's
1 Connecticut	\$5,457	Aa3	18 Minnesota	\$1,402	Aa1	35 South Carolina	\$	749	Aaa
2 Massachusetts	\$4,999	Aa1	19 Virginia	\$1,302	Aaa	36 Missouri	\$	668	Aaa
3 Hawaii	\$4,727	Aa2	20 New Mexico	\$1,208	Aaa	37 Nevada	\$	639	Aa2
4 New Jersey	\$3,989	A1	21 Utah	\$1,187	Aaa	38 Texas	\$	614	Aaa
5 New York	\$3,204	Aa2	22 Pennsylvania	\$1,172	Aa2	39 Arkansas	\$	589	Aa1
6 Washington	\$2,924	Aa1	23 Kansas	\$1,097	Aa2*	40 Indiana	\$	533	Aaa*
7 Illinois	\$2,580	A3	24 Ohio	\$1,087	Aa1	41 Oklahoma	\$	529	Aa2
8 Delaware	\$2,485	A1	25 Georgia	\$1,064	Aaa	42 Colorado	\$	517	Aa1*
9 California	\$2,465	Aaa	26 West Virginia	\$1,044	Aa1	43 Idaho	\$	503	Aa1*
10 Rhode Island	\$2,064	Aa2	27 Florida	\$1,008	Aa1	44 South Dakota	\$	391	NGO**
11 Kentucky	\$2,037	Aa2*	28 Maine	\$951	Aa2	45 Tennessee	\$	324	Aaa
12 Oregon	\$1,920	Aa1	29 Arizona	\$889	Aa3*	46 Montana	\$	276	Aa1
13 Wisconsin	\$1,845	Aa2	30 Vermont	\$878	Aaa	47 Iowa	\$	275	Aaa*
14 Maryland	\$1,791	Aaa	31 Alabama	\$876	Aa1	48 North Dakota	\$	250	Aa1*
15 Mississippi	\$1,746	Aa2	32 New Hampshire	\$864	Aa1	49 Wyoming	\$	54	NGO**
16 Alaska	\$1,573	Aaa	33 North Carolina	\$806	Aaa	50 Nebraska	\$	12	NGO**
17 Louisiana	\$1,464	Aa2	34 Michigan	\$785	Aa2	P Puerto Rico	\$	15,099	Ba2***

\* Issuer Rating (No G.O. Debt)

\*\* No General Obligation Debt

\*\*\* This figure is not included in any totals, means, or median calculations but is provided for comparison

MEAN: \$1,436

MEDIAN: \$1,054

Source: 2014 Moody's State Debt Median Report—Debt per Capita based on Moody's definition of net tax supported debt, debt service and operating revenues, and may differ from a state's own published calculations.



# FY 2013 Debt Service Ratio

1 Connecticut	13.5%	17 Georgia	6.7%	35 Colorado	2.8%
2 New York	11.4%	19 Maine	6.1%	36 Michigan	2.8%
3 Hawaii	11.1%	20 Alabama	5.6%	37 Idaho	2.7%
4 Massachusetts	10.5%	21 Ohio	5.5%	38 Vermont	2.7%
5 Illinois	10.1%	22 Maryland	5.5%	39 Oklahoma	2.3%
6 California	9.4%	23 Virginia	5.4%	40 Arkansas	2.2%
7 Washington	9.1%	24 Arizona	5.3%	41 Montana	2.1%
8 New Jersey	8.9%	25 Pennsylvania	5.1%	42 Minnesota	2.1%
9 Oregon	8.9%	26 New Mexico**	5.1%	43 Indiana	1.9%
10 Kentucky	8.8%	27 Louisiana	4.9%	44 Alaska	1.6%
11 Nevada	8.1%	28 New Hampshire	4.9%	45 South Dakota	1.5%
12 Rhode Island	7.8%	29 South Carolina	4.6%	46 Tennessee	1.5%
13 Delaware	7.6%	30 Kansas	4.5%	47 Iowa	0.9%
14 Utah	7.5%	31 North Carolina	3.7%	48 North Dakota	0.7%
15 Florida	7.1%	32 West Virginia	3.7%	49 Nebraska	0.2%
16 Mississippi	6.9%	33 Missouri	3.6%	50 Wyoming	0.2%
17 Wisconsin	6.7%	34 Texas	3.0%	P Puerto Rico	**

MEAN: 5.3%  
MEDIAN: 5.1%

\*\* Figures based on estimated FY2013 revenues; audited financial statements not available at time of publication  
Source: 2014 Moody's State Debt Median Report—Debt Service Ratio based on Moody's definition of net tax supported debt, debt service and operating revenues, and may differ from a state's own published calculations.



# School Bond Qualification and Loan Program (SBQLP)

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- As authorized by the State's Constitution, the SBQLP provides a State credit enhancement (guarantee) and loan mechanism for school district capital improvement bond issues
- 425 of 549 school districts have State qualified bonds outstanding totaling over \$12.9 billion, which are reported as a contingent liability in the State's Comprehensive Annual Financial Report (SOMCAFR)
- 135 school districts have loans outstanding that were used to assist with making debt service payments on their qualified bonds totaling over \$1.7 billion
- Historically State GO bonds were issued to finance the loans, which has a direct impact on the State's credit rating and budget
  - Currently, there is approximately \$1.1 billion of GO School Bond Loan Bonds outstanding.
  - FY 2015 debt service is estimated to be \$125.9 million, which is appropriated from the School Aid Fund.
- A School Loan Revolving Fund (SLRF) was created to provide a mechanism for issuing revenue bonds and financing loans in lieu of State GO bonds.
  - Currently, there is \$685 million of SLRF bonds outstanding.



# State Building Authority (SBA)

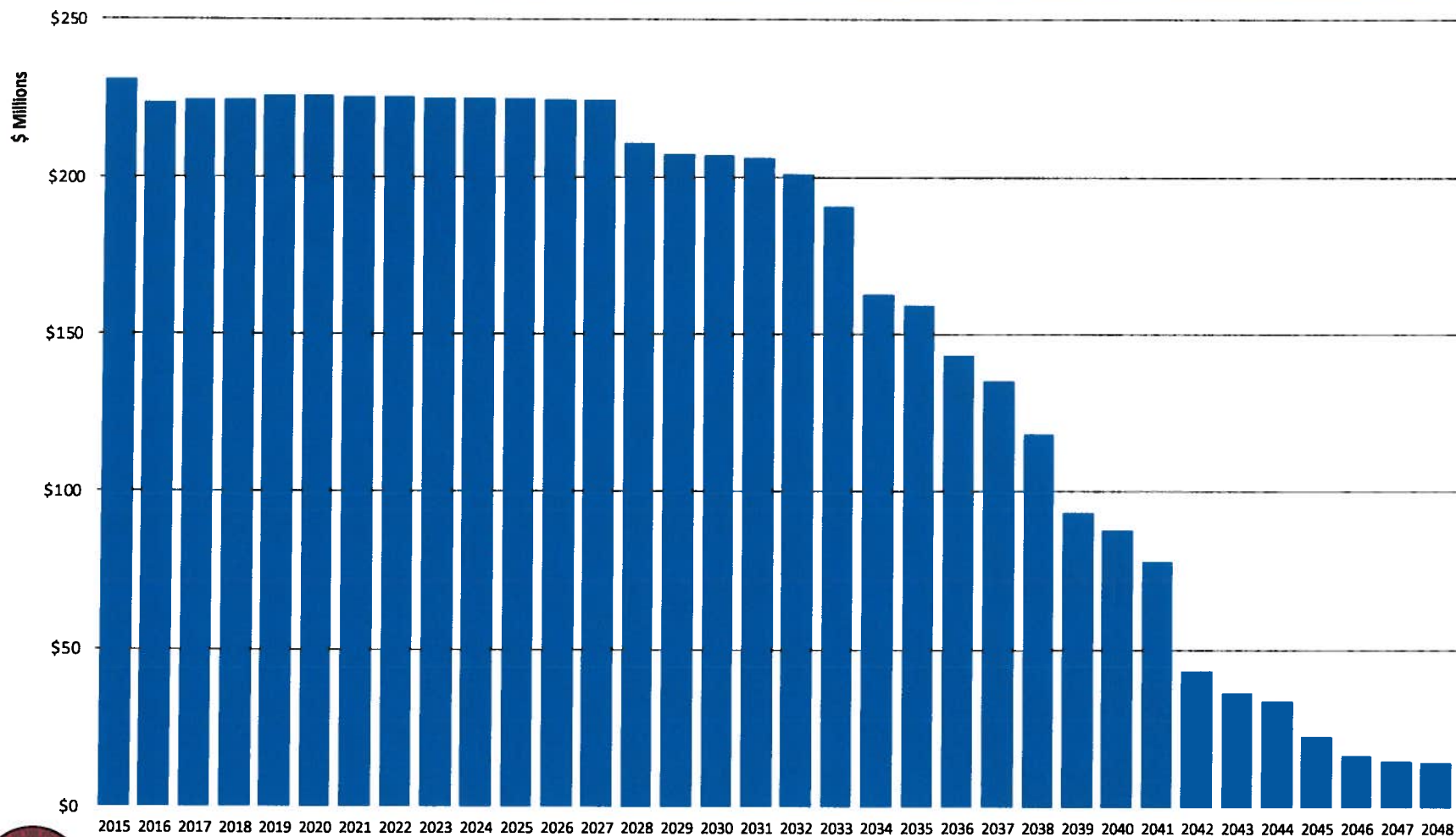
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- The SBA finances the acquisition or construction of buildings and equipment for the use of the State, including public universities and community colleges
- Currently has approximately \$3.1 billion of outstanding debt as of 9/30/14
- Authorized to issue \$2.7 billion of bonds, of which there is approximately \$1 billion in remaining authorization
  - Only outstanding bonds representing net construction costs are counted against the \$2.7 billion authorization limit
  - Bonds issued to pay capitalized interest and bond issuance expense including underwriter's discount, bonds issued to provide deposits of debt service reserve funds and refunding bonds are not chargeable to the SBA bonding authorization
- Bond ratings one notch below GO ratings due to appropriation risk
- The SBA issues Commercial Paper (CP) Notes to finance projects during construction. Currently there are approximately \$129 million CP notes outstanding.



# State Building Authority

## *Current Debt Service by Fiscal Year*



# Michigan Department of Transportation (MDOT)

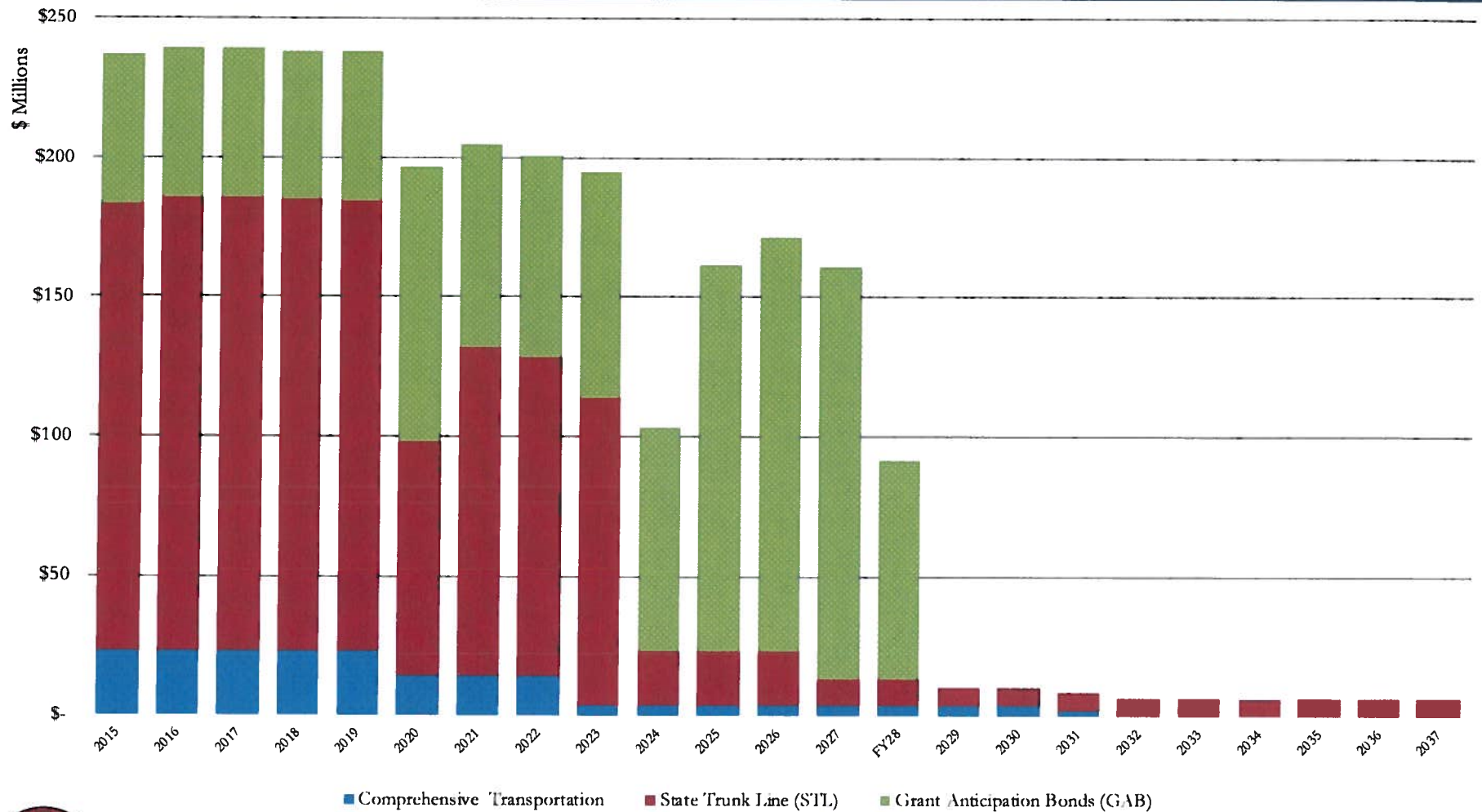
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- Michigan Department of Transportation (MDOT)
  - MDOT is responsible for financing state trunkline roads and bridges, transit systems facilities and buses, airports, and railroad capital projects
  - MDOT currently has \$2.0 billion of outstanding debt as of 9/30/14
- MDOT has statutory authority (Act 51 of 1951) to issue three types of revenue backed debt
  - Constitutionally dedicated revenue streams
  - State trunkline fund revenue based on constitutionally dedicated fuel taxes and registration fees
  - Comprehensive transportation fund revenue based on its share of constitutionally dedicated fuel taxes and registration fees and sales tax on vehicle related sales
  - Indirect GARVEE debt backed by future receipts of future federal aid
- Ratings may be different than State's rating due to revenue coverage structure
  - Current ratings are Aa2 (Moody's), AA+ (Standard & Poor's) and AA (Fitch)



# Michigan Department of Transportation

## *Current Debt Service by Fiscal Year and Program*



# Michigan Finance Authority

## *History and Overview*

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- Executive Order 2010-2, created the Michigan Finance Authority (MFA), consolidating the following 10 public finance authorities:
  - Municipal Bond Authority
  - Public Educational Facilities Authority
  - State Hospital Finance Authority
  - Higher Education Facilities Authority
  - Tobacco Settlement Finance Authority
  - Underground Storage Tank Financial Assurance Authority
  - Forest Finance Authority
  - Higher Education Assistance Authority
  - Higher Education Student Loan Authority
  - State Higher Education Facilities Commission
- As of February 1, 2015, the MFA had issued over \$20 billion in bonds and notes since its inception in 2010.
- MFA is a conduit issuer, and MFA debt is not a debt or liability of the state.



# Other State Debt Issuing Entities

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In addition to Treasury, MDOT, SBA and MFA, the following State entities issue debt:

- Michigan State Housing Development Authority (MSHDA)
  - MSHDA provides financial and technical assistance for public and private housing developments
  - MSHDA currently has \$2.0 billion of outstanding debt as of 9/30/14
- Michigan Economic Development Corporation – The Michigan Strategic Fund (MSF) generally serves as a conduit issuer for private activity bonds, which does not constitute state debt. However, there are the following exceptions of projects that were issued through the MSF and are secured by state appropriation
  - House Office Building (completed in 2008)
  - Senate Office Building (upcoming)
  - Cadillac Place State Office Building (completed in 2011)
  - State grant portion of Facility for Rare Isotope Beams on the campus of Michigan State University (completed in 2014)



# Bonds and Notes Payable at Fiscal Year End

\$ in Thousands

	2010	2011	2012	2013	2014
<b>GENERAL OBLIGATION DEBT</b>					
School Bond Loan	\$ 671,228	\$ 861,920	\$ 1,003,578	\$ 1,130,893	\$ 1,053,887 *
Environmental Protection	408,260	406,494	361,634	302,269	236,669 *
Recreation	10,220	10,296	6,891	3,306	2,282
Clean Michigan Initiative	513,775	523,386	503,319	468,132	431,132 *
Great Lakes Water Quality Bonds	57,604	67,611	127,826	127,573	203,291
<b>Total General Obligation Debt</b>	<b>\$ 1,661,087</b>	<b>\$ 1,869,707</b>	<b>\$ 2,003,248</b>	<b>\$ 2,032,173</b>	<b>\$ 1,927,262</b>
<b>NON-GENERAL OBLIGATION DEBT</b>					
Michigan Department of Transportation Tax Dedicated Bonds	1,612,146	1,511,685	1,484,405	1,371,660	1,235,440 *
MDOT Grant Anticipation Notes					
MDOT Grant Anticipation Bonds	756,495	749,155	741,455	733,410	724,960
Michigan Department of Natural Resources State Park Revenue Bonds	11,570	10,900	10,200	9,465	8,700
Special Authorities-Revenue Bonds and Notes: (a)					
Mackinac Island State Park Commission	1,930	1,885	1,835	1,785	1,735
Michigan State Housing Development Authority	2,526,246	2,474,150	2,338,620	2,114,642	2,020,105
Michigan State Building Authority	3,008,024	3,175,339	3,103,332	3,181,564	3,105,869 *
Michigan Finance Authority	14,885,199	14,048,108	17,106,980	16,079,319	17,537,276 *
<b>Total Non-General Obligation Debt</b>	<b>\$22,801,610</b>	<b>\$21,971,222</b>	<b>\$24,786,827</b>	<b>\$23,491,845</b>	<b>\$24,634,085</b>

\* All or part of the principal amount not presented, and not represented in the totals due to the advance refunding of all or part of this obligation.

(a) Does not include the activity of the Michigan Strategic Fund.

